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IDAHO PUBLIC
UTILITIES COMMISSION

Attorneys for the J. R. Simplot Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	CASE NO. IPC-E-13-23
COMPANY'S APPLICATION FOR)	
APPROVAL OF SPECIAL CONTRACT)	J. R. SIMPLOT COMPANY'S
BETWEEN IDAHO POWER COMPANY)	COMMENTS
AND J. R. SIMPLOT COMPANY)	
_____)	

COMES NOW, the J. R. Simplot Company ("Simplot") and pursuant to Order No. 32984 issued in the above captioned docket by the Idaho Public Utilities Commission ("Commission") on February 25, 2014 and hereby provides its Comments on the terms and conditions of Idaho Power Company's ("Idaho Power") proffered special contract with Simplot. The two unresolved items with regard to the special contract are the proper base rate applicable to this new customer and the proper language to address limitation of liability. As explained in detail below, although Simplot initially proposed in its Answer a compromise base rate of 4.197 cents per kilowatt-hour ("¢/kWh"), Simplot now relies on newly available information to propose an alternative base rate of 3.699 ¢/kWh. That rate would appropriately place Simplot's Idaho Project on the same footing as Idaho Power's other special contract customers and allow Simplot to receive the benefit of reduced electricity rates that should be associated with a switch from primary to transmission level delivery. Additionally, Simplot stands by the position made in its Answer

with regard to the limitation of liability issue and reserves the right to respond to any comments of Idaho Power or any other party on that issue.

I. BACKGROUND

In the fall of 2013, Simplot and Idaho Power commenced negotiations for a special contract for the provision of electric service by Idaho Power to Simplot's, currently under construction, Idaho Project. The Idaho Project is a new potato processing plant utilizing state of the art, highly efficient technology. The Idaho Project will have sufficient processing capacity such that Simplot's existing processing facilities at Caldwell, Nampa and Aberdeen will be closed and the production at those facilities shifted to the new Idaho Project, located adjacent to the existing Caldwell facility. The Idaho Project's total electrical load will exceed twenty megawatts on a consistent basis, which requires Idaho Power and Simplot to enter into a special contract as the load exceeds the limits for entitlement to rates under Idaho Power's large power service schedule (Schedule 19).

In the negotiations, Idaho Power presented Simplot with a proposed rate design that would have resulted in an overall base rate of 3.937 ¢/kWh consumed. With the exception of objectionable limitation of liability language, it appeared that all contract issues were settled. On December 4, 2013, Idaho Power filed its Application, asking the Commission to approve the special contract containing its proposed limitation of liability language. The proposed contract was included in the Application as Attachment One. Attachment Two of the Application contained Idaho Power's proposed Schedule 33 Tariff for the Idaho Project. The rate in the Company's December filing is 4.243 ¢/kWh, or 7.8% higher than the 3.937 ¢/kWh rate discussed in negotiations in the fall of 2013.

During negotiations, Simplot had retained the services of Dr. Don Reading to aid in understanding the basis for Idaho Power's proposed base rate of 3.937 ¢/kWh. Idaho Power provided Dr. Reading with the spreadsheet it used to calculate the 3.937 ¢/kWh rate used during negotiations. That rate used the IPC-E-11-08 cost-of-service study but also incorporated adders to adjust for the intervening events that have resulted in upward rate adjustments. The adjustments include adding Langley Gulch in rates, OATT changes, depreciation rate changes and an update of the Boardman Balancing Account. These adjustments to the old cost-of-service study were then applied to Idaho Power's Schedule 19 rate elements to arrive at the 3.937 ¢/kWh rate used in negotiations. Simplot took the position in negotiations that Idaho Power should run a whole new cost-of-service study rather than updating only certain aspects of the study in a piece-meal fashion, but at the time of negotiations Simplot was willing to accept Idaho Power's proposed rate of 3.937 ¢/kWh to avoid delay and dispute. Simplot was therefore surprised to see Idaho Power propose an even higher rate in its Application of 4.243 ¢/kWh.

On February 5, 2014, Simplot filed its Answer to Idaho Power's Application. Simplot proposed a compromise rate of 4.197 ¢/kWh. Dr. Reading calculated the compromise rate using the same components as Idaho Power, except that Dr. Reading substituted the average of the three existing special contract customers' cost-of-service studies in place of the Schedule 19 elements used by Idaho Power. As opposed to Idaho Power's negotiation rate of 3.937 ¢/kWh, Dr. Reading's rationale was that using the special contract customers' cost-of-service as a basis to calculate the rate more accurately reflects the fact that the Idaho Project will also be a special contract customer that takes power at the transmission, rather than the primary, voltage level. The averages of the three special contract customers' rates were substituted into the spreadsheet

provided by Idaho Power (using the old cost-of-service study) and resulted in the compromise rate of 4.197 ¢/kWh recommended in Simplot's February 3, 2014 Answer.

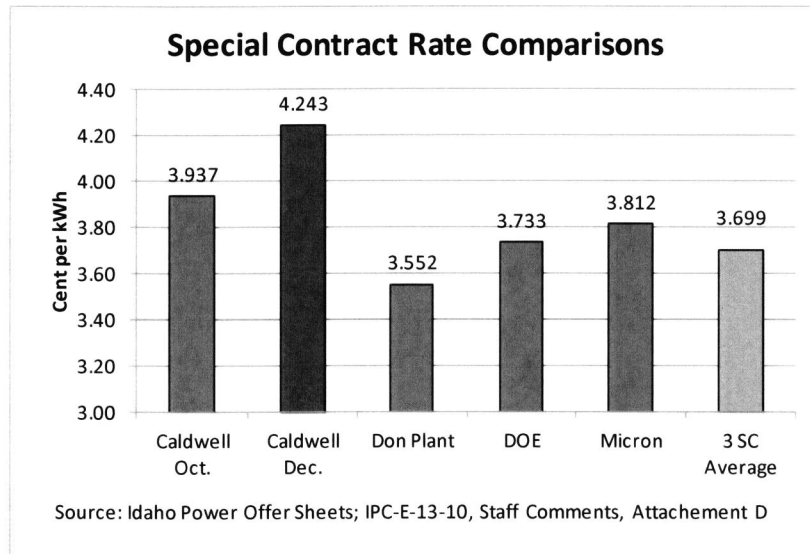
II. CURRENT STATUS

The Parties, along with the Commission's Staff, held an information meeting on the question of the appropriate rate for Simplot on March 10, 2014. The purpose of the meeting was to allow the Company an opportunity to explain in greater detail how it arrived at the 4.243 ¢/kWh rate. Idaho Power apparently is motivated by a desire to insure the rate offered to the Idaho Project does not have any impact on other, existing, Idaho Power ratepayers or Idaho Power itself. To accomplish that goal, Idaho Power developed a rate under which the Company's current base revenue requirement would not be impacted by the closure and the replacement of Simplot's three existing facilities with the Idaho Project. In other words, Idaho Power's 4.243 ¢/kWh is designed to keep Idaho Power revenue neutral. Idaho Power's approach is to assess Simplot's overall fleet of Idaho plants the same amount in base rates as it would have if Simplot were not closing three primary-level voltage plants and opening one highly efficient transmission-level voltage plant.¹

The table below shows both the initial rate offered by Idaho Power and the currently offered rate. Also shown are the rates for the other special contract customers. The rates for the special contract customers are base rates taken from the Company's most recent filing (2013-2014 PCA) and do not include adders such as the PCA and the Energy Efficiency Rider in order

¹ Idaho Power apparently does not believe the Idaho Project is a new customer that would be entitled to an offer of the Company's marginal cost of energy. Because Idaho Power currently enjoys a surplus of capacity and energy, the marginal rate would be lower than an embedded rate. The current situation is the opposite of conditions extant at the time of the Hoku contract, when the marginal rates were higher than embedded, although Hoku did agree to pay the marginal rate, for at least some of its power needs.

to match the rate found in the tariff proposed by the Company. The final column in the table shows the average of the three special contract customers' currently effective rates.



Idaho Power's offered rates are 15% higher than the average of the three current special contract customers' rates and 19% higher than the rates at Simplot's Don Plant, which has approximately the same level of power consumption and a similar load factor.

The 4.243 ¢/kWh rate developed by Idaho Power for its Application is not based on its current cost structure. Idaho Power's most recent cost-of-service study was conducted using data from 2010 for use in the last general rate case (IPC-E-11-08). It does not appear that the Company plans on conducting a new cost-of-service study in the near future and is not contemplating filing a general rate case, which would necessarily include a new cost-of-service study. In fact, Idaho Power has publically stated that it is planning on asking the Commission to extend the revenue sharing agreement beyond its current expiration date at the end of this year.

Simplot acknowledges the limitations of using an old cost-of-service study. The

adjustments to the cost-of-service study the Company used to create the negotiation rate of 3.937 ¢/kWh include many significant changes to its cost structure that have occurred since the last cost-of-service study was completed in 2011. Because the Company updated the cost-of-service inputs for just the Idaho Project and no other customer, Simplot would be paying a rate that is significantly higher than the rates any other special contract customer pays. This inequity in rates would be embedded in the Idaho Project's rates indefinitely – at least until a new cost-of-service study is completed for a future rate case that could occur years into the future. Similarly, as noted above, Simplot's initially recommended rate of 4.197 ¢/kWh contained in its Answer was based on the existing cost-of-service study for other special contract customers from IPC-E-11-08.

Additionally, last week, the Commission declared that it is inappropriate to use the 2011 cost-of-service study to allocate rates. In discussing how to allocate base net power supply costs in Docket No. IPC-E-13-20, the Commission rejected a joint Micron/Industrial Customers of Idaho Power ("ICIP") request to use the 2011 cost-of-service study in allocating rates among customer classes. At page 8 of Order No. 33000 the Commission declared: "We disagree with the ICIP/Micron approach, and find it would be inappropriate in 2014 to allocate the base rate increase using the Company's 2011 class cost-of-service study." Applying the rationale of recently-issued Order No. 33000, neither the Company's original calculation (3.937 ¢/kWh) nor Simplot's compromise rate calculation in its Answer (4.197 ¢/kWh) are appropriate because both derive from the 2011 class cost-of-service study. Thus, Simplot now offers an alternative approach that arrives at a retail rate that is fair, just and reasonable and which Simplot urges the Commission to consider favorably.

III. RECOMMENDATION

Based on the additional information gleaned in the interim between its Answer and today, Simplot believes a fair, just and reasonable rate for the Idaho Project is a simple average of the rates being paid by the three current special contract customers, or 3.699 ¢/kWh. It should be noted that Simplot would also pay the power cost adjustment rates (“PCA”) just the same as other special contract customers. This proposal would place Simplot’s Idaho Project in a comparable position to the other special contract customers, and is therefore superior to Idaho Power’s recommended rate, which has no basis in Commission precedent or rate-making principles.

Idaho Power’s motivation is now clear. Idaho Power’s proposed rate in its Application (4.243 ¢/kWh) is designed not based on *any* cost-of-service study. Nor is it based on any other fair rate-making principle. Instead, Idaho Power’s rate is driven by a revenue neutrality goal on Idaho Power’s part. It appears to be based on an incorrect assumption that other ratepayers would be harmed if overall revenue paid by all of Simplot’s Idaho facilities were to decline. But no other ratepayer will be harmed if Simplot pays a rate lower than that offered by Idaho Power. Idaho Power’s rates will not change until the next general rate case, at which time a new cost-of-service study will be completed and all of Idaho Power’s customers will then have the opportunity to pay cost-based rates once again. Idaho Power may collect less revenue without its proposed 4.243 ¢/kWh rate, but other ratepayers will not make up the difference. If a problem exists, Idaho Power alone possesses the ability to fix it by filing a general rate case.

It is not reasonable for Idaho Power to “back cast” by setting a rate equal to the historic revenues received from Simplot’s closing plants. Each of Simplot’s closing plants represents a

separate individual customer. The loads from those three plants were never aggregated by Idaho Power for purposes of billing, and they have never been treated as a single customer for the purposes of rate making. The Idaho Project is a new customer and should not be held responsible for lost revenue due to the fact that other customers are leaving the system. That is simply not how the regulatory compact works. If it were, then a customer like Hoku would have ongoing responsibility for making Idaho Power's other ratepayers whole due to the lost anticipated revenues the Company is experiencing with the loss of that customer.

Furthermore, even if Simplot's entire fleet of plants should be treated as one single customer for rate-making purposes, Idaho Power's proposed revenue neutrality rate is contrary to the policy of accurate pricing signals and cost-based rates. Simplot has decided to consolidate its Idaho operations by constructing a state-of-the-art, highly efficient food processing facility, and thereby reduced the per unit electrical costs it imposes on Idaho Power by shifting to a higher load factor, transmission-level voltage facility. Obviously, Simplot could reasonably expect to receive a lower, cost-based electricity rate commonly available to special contract customers taking transmission level service, such as at Simplot's Don Plant. Yet Idaho Power's proposal to maintain its revenue neutrality – as if Simplot were still operating three primary voltage facilities – would deprive Simplot of the full cost-based reduction in incremental electricity costs. Had Simplot simply converted to transmission-level voltage at its three closing plants, Simplot would have paid a lower cost-based rate under Schedule 19 without regard to the revenue impact to Idaho Power. There is no basis for a different treatment when Simplot opens a new plant. The Commission should endorse cost-based rates instead of assessing a rate designed to keep Idaho Power revenue neutral and approve Simplot's alternative base rate of 3.699 ¢/kWh.

**IV.
LIMITATION OF LIABILITY**

Unless Idaho Power responds to the arguments in Simplot's Answer on the issue of limitation of liability, Simplot has nothing further to add on this issue. However, should Idaho Power, or any other party, comment with disfavor regarding Simplot's limitation of liability language proposal, Simplot will respond accordingly on the Reply date set forth in the Commission's order.

**V.
CONCLUSION**

Although Simplot initially proposed in its Answer that the base rate be 4.197 ¢/kWh, Simplot proposes an alternative base rate of 3.699 ¢/kWh that places Simplot's Idaho Project on the same footing as Idaho Power's other special contract customers. Additionally, Simplot stands by the position made in its Answer with regard to the limitation of liability issue and reserves the right to respond to any comments of Idaho Power or any other party on that issue.

RESPECTFULLY SUBMITTED this 28th day of March 2014.

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CERTIFICATE OF SERVICE

I hereby certify that on 28th day of March 2014, copies of the foregoing Comments of the J. R. Simplot Company in Docket No. IPC-E-13-23 were delivered to:

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